

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

✓ DCI 6/13/69
"RANCH PLUS"

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

STATINTL

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

Next 1 Page(s) In Document Exempt

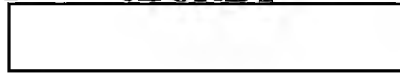
Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

23 May 1969

DCI's 27 MAY BRIEFING

COMMUNIST CHINA

- I. The Chinese Communist Ninth Party Congress, which lasted most of April, does not seem to have resolved many of China's massive political problems.
- A. Although it was billed as a "unity" session, the congress appears to have done little to end the infighting. Signs of factionalism persist in most provinces.
1. Violence died down last summer, but it has not ended completely.
 2. Clashes continue in West China--particularly in populous Szechwan and in Tibet--and there are sporadic outbreaks of violence in the east coast provinces as well.
- B. The regime has not embarked on any major new programs or policies in the wake of the congress. Arguments about both political and economic matters continue in the provinces and in Peking.



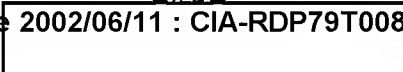
II. The congress itself was marked by discord and rancor.

A. Quarrels among top-level figures forced a brief postponement of the meeting. Continued disputes about policy and personnel caused it to last more than twice as long as originally planned.

1. Two important issues were how hard to push the radical and disruptive social programs which are dear to Mao's heart, and what is to be the shape of economic programs for the next year or so. It appears that no firm decision was made on either of these issues.

2. Another divisive issue was the composition of the new central committee. The congress apparently spent at least half its time arguing this one out.

B. The central committee that finally emerged from these deliberations seems to be a compromise body, with some representation for virtually every political interest group within the regime. No single faction has the strength to dominate, which may well be the way Mao wants it. It leaves him in full charge.



SECRET

25X1

1. It is heavily weighted in favor of the provinces, and the military appear to be the biggest gainers.
2. Party bureaucrats suffered badly. Government administrators seem to have done little better.
3. This probably means that Chou En-lai has suffered some loss of influence and power, although he is still listed as the number three man behind Mao Tse-tung and Lin Piao. A number of his subordinates were dropped from the new Politburo formed at the close of the congress.
4. The most dramatic fact about the new Central Committee is the evidence it offers on the destruction of the Communist Party machinery. Although the new Committee is much larger than its predecessor, it has dropped nearly 70 percent of the Communist officials who were still active in the old Central Committee at the time the Congress began.

SECRET

25X1

SECRET

25X1

- C. The Politburo tends to reflect and legitimize power relationships as they now exist in China.
1. Nearly all of Mao's radical associates who were prominent in pushing the Cultural Revolution are on the new body. They dominate the Politburo Standing Committee, the highest policy-making organ in the country.
 2. These radicals, however, have to share power and authority with newly-important military men. Almost all the new faces on the Politburo were drawn from the military establishment. Military men from the provinces appear to be particularly prominent in this grouping.
- D. Mao seems to have disposed of most, but not all, of the important party bureaucrats he labeled as his opponents in the course of the Cultural Revolution. In this sense, this was his congress.

SECRET

25X1

SECRET

25X1

1. He was apparently active and energetic throughout the Congress. Films and recordings of some of the public proceedings indicate that he made a better impression, physically and verbally, than his designated successor, Lin Piao.
2. Mao does not have things all his own way. He has to lean heavily on the army, which is just about the only really operative arm of the government at the moment.
3. Many of the army leaders opposed the excesses of the Cultural Revolution. They are personally loyal to Mao, but they don't see eye to eye with him on many of his policies.
4. The prospects are for continued infighting and differences at virtually all levels of the regime—a situation that is not likely to change until the old man dies.

SECRET

25X1

6 June 1969

Messrs Bruce Clarke

STATINTL

c: DOCI FYI

1. DCI is to fly to the ranch to brief LBJ on Friday, 13 June.
2. By and large, as he did on last briefing, he will brief from notes or a quick and dirty summary page, to which recent briefings/memos/talking papers will be attached as back-up reference.
3. Situation is complicated by fact Kissinger yesterday spent 3-1/2 hours briefing LBJ, which on one hand means some subjects needn't be covered, on other hand means he will have stirred up some further questions for DCI.
4. For the moment, DCI has requested papers on Paris Vietnam Negotiations and Big Four/Bilateral Middle East Negotiations from which he can talk, but which he can also leave with LBJ.
5. Kissinger apparently briefed on WH view of status of SALT negotiations, but DOCI feels this may have served to whet LBJ appetite, and DCI should be prepared to handle more questions. Accordingly DCI should have status memo on SALT--readiness to talk, testing and deployments continue, so does veiled sniping by Soviet hardliners.
6. DOCI agrees these papers will be wide open on classification, but Vietnam is particularly tricky because it's so much WH/State baby. DOCI feels paper should stay pretty much on the generalized side, and he wants to see it himself before it goes forward to DCI.
7. Could I have the papers by 1400 Monday, June 9?

STATINTL

STAT

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5
Top Secret



Top Secret

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

Secret

25X1



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

THE BIAFRAN RELIEF PROBLEM

Secret

18

29 January 1969
No. 0611/69

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
EXCLUDED FROM AUTOMATIC
DOWNGRADING AND
DECLASSIFICATION

SECRET

25X1

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
29 January 1969

INTELLIGENCE MEMORANDUM

The Biafran Relief Problem

Summary

Biafran relief has become a charged international issue that could severely strain and possibly rupture US-Nigerian relations. There is very little reliable information on the actual number of refugees or on the rate of starvation in Biafra, but it does appear that the situation will worsen within the next few months. The plight of the refugees has not had any significant effect on the policies of either side in the civil war, but the Biafrans use it for propaganda purposes, and at least some Nigerians favor starving the Biafrans into submission as the best war policy.

As the war drags on, the federal authorities will probably become increasingly suspicious of foreign involvement in Biafran relief, and may feel compelled to react strongly against foreign countries backing stepped-up relief to the secessionists. Violent anti-US demonstrations could also occur.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Current Intelligence and coordinated with the Office of Economic Research, the Office of National Estimates, and the Clandestine Services.

SECRET

25X1

~~SECRET~~

25X1

The Seriousness of the Food Problem

1. The area now under Biafran control is approximately one fourth that of the former Eastern Region which Colonel Ojukwu led into secession in May 1967. As a result of the Ibo exodus into Biafran-controlled territory as federal forces advanced, the population in present-day Biafra has increased from a prewar four million to somewhere between six and seven million. Even before the civil war this particular section of the Eastern Region was a densely populated area dependent on imported food.

2. There is unquestionably starvation in the Biafran-controlled area and in the areas of the former Eastern Region overrun by federal forces. The number of deaths from starvation appears to have risen sharply during the period from last July through October. Deaths probably numbered in the hundreds of thousands, but accurate figures are not available. These deaths presumably occurred mostly among the very old, the young, and the sick. After October there was an apparent decline in deaths from starvation probably because of an improvement in the food distribution system, the increased airlift of food by relief organizations, and the fact that the main yam harvest occurred at this time.

3. Forecasts on the seriousness of the starvation problem in the coming months range from a relatively low death rate to those predicting mass starvation. The US Embassy in Lagos has estimated that by July some 3.5 million Biafrans and some 2.25 million refugees in federal-held territory will be in need of food. Should the direst predictions regarding the food situation materialize and the worst circumstances prevail, some two to three million people in Biafra and in the federally occupied areas could die of starvation in the next few months. It does not appear that death from starvation will be anywhere near this serious, however. Moreover, a real if unmeasurable consideration in any such estimate is the Biafrans' ability to cope with the problem themselves. Colonel Ojukwu recently launched another campaign to increase food production, and it must be assumed that the Biafrans will turn their considerable ingenuity toward alleviating the problem.

~~SECRET~~

25X1

SECRET

25X1

Sources of Assistance

4. Relief to the Biafrans has come mainly from Joint Church Aid (JCA), an association of religious relief agencies operating from the Portuguese island of Sao Tome off the coast of Nigeria, and until early this month from the International Committee of the Red Cross (ICRC) based in neighboring Equatorial Guinea. The unofficial Catholic charity organization, Caritas, has also sent some relief supplies from Sao Tome, and the French Red Cross operates relief flights from Libreville.

5. The ICRC operation was suspended early this month by the government of newly independent Equatorial Guinea for a variety of reasons, not the least of which is the unstable situation that prevails in this tiny former Spanish dependency. There is a large Ibo work force on Fernando Po, which the government of Equatorial Guinea fears is bent on subversion. Equatorial Guinea also believes it is under pressure by its much larger neighbor and has come down firmly on the side of Nigeria over the Biafran question. When the territory was under Spanish control, the ICRC operation worked smoothly. After independence last October, however, tension developed between ICRC officials and the Equatorial Guineans who have described the relief workers as arrogant and disrespectful of Equatorial Guinea's sovereignty. Equatorial Guinean Government officials have also indicated that they are receiving much less financial compensation for the ICRC operation than the Spanish did. Foreign Minister Ndongo has indicated that his country would consider reopening the airlift if the proper financial compensation were forthcoming. It is by no means certain, however, that he was speaking for his government, particularly the highly volatile President Macias, who has publicly committed himself not to permit ICRC night flights and who seems bent on using this issue to underscore Equatorial Guinea's independent status.

6. All relief flights by the JCA and ICRC have been made at night. The Biafrans refuse to open their one operating airstrip to day flights, fearing that the Nigerians would use this opportunity to land troops on the airstrip. Also, the Biafrans want to continue night relief flights as a cover for separate arms

SECRET

25X1

SECRET

25X1

flights. The ICRC had been transporting approximately 80 tons of relief supplies per night to the Biafrans, while the JCA is presently carrying about 100 tons of relief supplies nightly.

Nigerian Attitudes on Relief

7. Nigeria has reluctantly accepted the need for foreign participation in the Biafran relief effort, but Lagos has always been suspicious of the activities of the foreign relief agencies involved. Lagos would prefer that all relief be channeled through Nigeria, and, ideally, through Nigerian relief organizations. The federal authorities tacitly sanctioned the principle of daylight flights by the ICRC from Equatorial Guinea, but have never given their approval for night flights. Indeed, last November Lagos implied that planes flying into Biafra at night risked being shot down.

8. The Nigerians object strongly to the JCA operation from Sao Tome, and with some justification. The JCA has completely bypassed Lagos in its operations, and arms are also being flown to the secessionists from Sao Tome. The same airplanes have been used for arms and relief flights, and it seems probable, although there is no definite evidence, that some of the planes have carried mixed cargoes. The JCA officials are definitely pro-Biafran and have not been too discreet about expressing these sympathies publicly.

The Biafran Viewpoint

9. The Biafrans have said that they welcome relief from any donors, except Nigeria, the UK, and the USSR--the "unholy alliance" which the Biafrans are convinced is bent on the extermination of the Ibos. The Biafran insistence that relief not be channeled through Lagos results from the secessionists' unwillingness to appear dependent on Nigeria for anything, on a genuine fear that Lagos would poison the food, and on the probably justifiable fear that Nigeria would use relief supply channels, such as a land relief corridor from Nigeria to Biafra, for military purposes. The Biafrans have done all they can to alleviate the refugee and starvation problems, but the secessionist leadership has given no indication--even during the July-

SECRET

25X1

SECRET

25X1

October period--of being moved by the problem to a more compromising position with respect to the secession issue.

Prospects

10. As the war drags on, with a probable increase in starvation, the Nigerians are likely to become even more sensitive to "foreign meddling" over the relief issue. Some Nigerian leaders regard starvation as a legitimate weapon of war and see aid to the Biafrans as merely prolonging the fighting. Most Nigerians, and at least some federal leaders, regard foreign relief to Biafra as direct support to the secessionists in an attempt to Balkanize Nigeria. The strong adverse reaction that greeted the announcement in December that the US was furnishing C-97 aircraft--four to the ICRC and four to the JCA--provides evidence of the Nigerian attitude on this matter.

11. Federal leader Gowon himself probably understands the US position on relief, but he has made clear to the US ambassador that the Nigerian people regard it as aid and comfort to the enemy. US efforts to reopen the ICRC's operation from Fernando Po have resulted in a definite increase in anti-US sentiment in Nigeria. The Nigerians recently leaked to the press a US note strongly urging--Lagos termed it demanding--the resumption of the airlift. In the Nigerian press and radio, the fact that US Secretary Rogers held his first official meeting with the Equatorial Guinean foreign minister was portrayed as further evidence of a change in US policy on Nigeria.

12. Official Nigerian reaction to US efforts to increase relief to Biafra has thus far been confined to verbal expressions of displeasure. There has been stinging criticism of the US in the Nigerian press and radio, and some anti-US demonstrations have been held. It would seem likely that as the war continues, further efforts by the US on behalf of Biafran relief will provoke a dramatic increase in anti-US sentiment in Nigeria. This in turn would increase pressure on federal leaders to take strong official action against the US. In the highly charged atmosphere in Nigeria, further

25X1

~~SECRET~~

25X1

US efforts for stepped-up Biafran relief could also easily spark violent anti-US demonstrations that could threaten some of the 5,200 US citizens now resident in Nigeria.

~~SECRET~~

25X1

Secret

Secret

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

ROCKEFELLER

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

SECRET

13 June 1969

ROCKEFELLER TRIP

- I. Latin American Communists and other militant opponents of United States are making an increasing effort to force cancellation of Governor Rockefeller's fact-finding tours or make them useless.
- II. On first trip, May 11 to 18, Mexico, Panama, and the Central American countries in between were visited without serious demonstrations. As far as we could tell, most host government officials were pleased and considered the talks productive.
- III. Before second trip began on May 27, Peru cancelled the visit there as "inopportune" and we were predicting hostile demonstrations at every stop except Trinidad---mainly Bolivia and Venezuela.
 - A. President Siles limited the Bolivian visit to three hours at the airport, and Venezuela cancelled the day before scheduled arrival.
 1. Venezuelans feared 2 weeks of student riots gave demonstrations too much impetus.
- IV. Schedule for third trip ^{was} ~~to~~ Brazil June 16, Paraguay June 19, Uruguay June 20. Uruguay, where all left-wing groups were planning demonstrations and Communists were planning violence, has asked postponement to July 6 or 7. Brazil is uneasy over strikes and student demonstrations.

SECRET

finally agreed
using Punta
iii 28 to

SECRET

- V. Fourth leg, last week in June, was to cover Chile, Argentina, and Caribbean islands---Haiti, Dominican Republic, Jamaica, Guyana, Barbados.
 - A. Chile, concerned over threat of extremely serious rioting, has already cancelled, noting that submission of CECLA (Latin American Economic Coordinating Committee) study to President Nixon on Latin American economic needs makes trip unnecessary.
 - B. Argentina should logically be shifted to third trip, but Argentines, while they have made no official request, believe that in light of their student riots, cancellation or at least postponement would be best.
 - C. Demonstrations are being planned in the Dominican Republic and probably in Guyana.

#

Attached: Briefing of June 9.

ROCKY-2

SECRET

9 June 1969

DCI'S 9 JUNE BRIEFING

ROCKEFELLER TRIP

- I. Governor Rockefeller, halfway through a schedule of four separate fact-finding trips to Latin America, is encountering increasingly hostile Communist-instigated demonstrations which are giving his host governments pause.
- II. During the first trip--to Mexico, the Central American Republics, and Panama, from May 11 to 18--The governor's visit was marked by only minor demonstrations.
 - A. The most serious incident was in Honduras, where student demonstrations led by a Communist front group resulted in the accidental death of one student.
 - B. There were no demonstrations in Mexico, Panama, or Guatemala.
 - C. Most government officials were pleased with the visits and felt they were productive.
- III. Even before the second trip began on May 27, we had evidence that the Communists were planning demonstrations of varying intensity at every point on the itinerary except Trinidad.

- [REDACTED]
- A. We identified Bolivia and Venezuela as the two countries where the demonstrations would be most hostile.
 - B. In addition, Peru cancelled the visit before the Governor left the United States, calling it "inopportune" because of the controversy over the International Petroleum Company and the U.S. suspension of military assistance.
 - C. Demonstrations at the first two stops--Colombia and Ecuador--did not affect the Governor or his party.
 - D. In Bolivia on May 31, however, the government limited the visit to three hours at the airport. President Siles feared that student demonstrations would get out of hand, and be used by the Bolivian military command as an excuse to throw Siles out of office.
 - E. Venezuela, which had been plagued by two weeks of student riots, first suggested that Governor Rockefeller stay at the officers' club instead of a Caracas hotel. One day before his scheduled arrival, when Rockefeller was in Trinidad, the Venezuelans cancelled the visit on grounds that planned demonstrations would adversely affect internal security.

SECRET

25X1

IV. The third leg of the tour is scheduled to start next Monday, June 16, in Brazil, continuing to Paraguay on June 19, and Uruguay on June 20.

A. Uruguay has asked for postponement, ~~preferably~~ ^{until July 6 or 7.} ~~until July.~~ All leftist groups are planning

demonstrations, some of them violent.

B. The Brazilians say they are "eagerly awaiting" the visit, but the government is becoming increasingly uneasy over the prospect of strikes and student demonstrations.

C. There is little or no security threat in Paraguay.

V. The fourth trip, set to begin the last week in June, originally included Chile, Argentina, and the Caribbean islands: Haiti, the Dominican Republic, Jamaica, Guyana, and Barbados.

A. Chile, however, has already cancelled the visit. There was a general consensus against it on grounds that threatened rioting on an extremely serious scale would only serve to weaken President Frei's government, and that the visit appeared unnecessary.

1. The Chileans have been citing a document to be submitted to President Nixon this week, produced by the recent meeting in Chile of CECLA, the Latin American Economic Coordinating Committee.

2. This document, drawn up by economic experts from all the Latin American countries, covers Latin America's economic needs from the United States,

SECRET

~~SECRET~~

25X1

[REDACTED]

according to the Chileans, and thus obviates the need for Governor Rockefeller's trips.

B. After Chile's cancellation, Governor Rockefeller considered switching Argentina to the third trip-- with Brazil and Paraguay.

1. The Argentines have made no official demarche yet, but they too fear major disturbances and believe that cancellation or at least postponement would be the best solution.

C. As for the Caribbean islands, students in the Dominican Republic are beginning to plan demonstrations, and some may be held in Guyana as well.

#

R-4

~~SECRET~~

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

PERU

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

SECRET

13 June 1969

PERU

- I. There does not appear to be much ground for accommodation between the position of Peru on International Petroleum Company and U.S. legislation requiring specific U.S. response.
 - A. Peru claims a "debt" of \$690 million--far more than the worth of IPC's holdings--for all oil IPC has extracted since operations began.
 - B. U.S. law requires suspension of economic aid and sugar quotas six months after expropriation of a U.S. firm without adequate compensation.
 1. April 7 deadline was deferred on pretext that Peruvian courts still afforded an avenue for settlement--but ultimately there must be either compensation, or sanctions.
 2. Meanwhile incidents with U.S. fishing boats in Peru's 200-mile limit have required (by U.S. law--Pelley Amendment) suspension of military aid, and Peru has requested withdrawal of military mission.
 - C. From U.S. end, there seems to be no way around sanctions required by U.S. law. In short term, we do not believe economic effect of sanctions will alter President Velasco's policy on IPC, or

SECRET

25X1

6 June 1969

DCI'S 9 JUNE BRIEFING

PERU

- I. There has been no real progress toward a solution to the problem over the expropriation of the International Petroleum Company since the deferral of economic sanctions on 7 April.
 - A. Discussions have taken place in both Lima and Washington, in the hope of finding a solution, but thus far the main thrust of the discussions has been to give each side a complete picture of the other's position.
 - B. The meetings between the negotiating teams have been cordial and the Peruvians do not seem to want an immediate confrontation. They have not, however, given any indication that they are prepared to consider seriously any solution involving Peru's actually paying any compensation for the expropriated property.
 - C. The obstacle to an easy settlement of the matter is the Peruvian claim that IPC owes the state some \$690 million.

SECRET

25X1

SECRET

25X1

1. This amount far exceeds any valuation that could be placed on the expropriated assets, and thus precludes any net compensation to IPC as long as Peru adheres to its present position.
2. The Velasco government has shown no signs of giving in on the matter of this "debt," and indeed, Velasco or any successor would probably find it politically impossible to concede on this point.
3. The Peruvian negotiating team has several times suggested that IPC take the matter to the Peruvian courts, where it could contest the debt by demonstrating that it had legal title to the oil fields or had at least operated them in good faith. The implication is that the court might uphold IPC, but there is very little evidence that IPC would indeed receive a fair and unbiased hearing.

D. Considering all the factors--internal political, economic, diplomatic--there is little possibility that a solution to the IPC con-

SECRET

25X1

SECRET

25X1

troversty acceptable to the U.S. can be found over the short term.

II. A more immediate problem is Peru's long-standing claim to a 200-mile limit to its territorial sea, which has resulted in the seizure and fining of several U.S. fishing boats in recent months. U.S. military sales to Peru have consequently been suspended under the Pelley Amendment.

A. Peru reacted to the public disclosure of this suspension with a request for the immediate withdrawal of the U.S. military missions, and a declaration that Governor Rockefeller's visit to Lima would be "inopportune."

1. It appears that the Peruvians have seized on the current situation to justify the replacement of the U.S. missions with French and other European advisers, an action they have long considered.
2. A high-level Peruvian military mission is currently touring Western Europe

25X1

SECRET

SECRET

25X1

to determine what armaments are available.

3. The suspension of U.S. military sales probably struck Velasco as an opportunity for a harsh reaction which would stir up more nationalistic support for his government. His reaction may also have been a bid for greater Latin American support on the IPC issue.

B. There is some indication that Peru would agree to attend a conference with Chile, Ecuador and the United States on the question of fishing rights in the 200-mile seas claimed by the three Latin American countries.

1. Peru's attendance would be conditioned, however, on at least temporary lifting of the sanctions now being applied against Peru and Ecuador, and on Congressional inaction on the legislation ^{*} now being proposed by Congressman Pelly.

* Suspend U.S. purchase of fish products from countries seizing U.S. fishing boats.

III. President Velasco's position remains strong, and the economy has not yet suffered seriously from the economic pressures being used by the U.S.

SECRET

25X1

SECRET

25X1

- A. There is still opposition to Velasco within the government and military, but so far he has been able to out-maneuver his opponents. Up to now no opposition leader has emerged who appears both desirous and capable of taking over the presidency. Serious economic problems or a breakdown in public order could, however, prompt someone to move against Velasco at almost any time.
- B. The heavy-handed manner in which the government has arrested or deported several critical editors and political figures has generated growing vocal opposition.
1. The government is preparing decrees tightening restrictions on the activities of political parties and information media, but there are indications of considerable disagreement within the regime over these measures.
- C. The short term effect of U.S. economic pressures, or even application of the sanctions called for under the Hickenlooper Amendment and Sugar Act,

SECRET

25X1

SECRET

25X1

hardly
would ~~not~~ be sufficient to force Velasco to
change his policy on IPC or bring about his
ouster.

SECRET

25X1

Secret

25X1



PERU - The IPC Controversy

Secret

158

15 May 1969
No. 1562/69

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1 EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

SECRET

25X1

CENTRAL INTELLIGENCE AGENCY

15 May 1969

MEMORANDUM

Peru - The IPC Controversy

Summary

Peru has had many military governments in its history, but the product of the coup last October is significantly different from anything that has gone before.

--It is strongly nationalist and its leaders are resolved to reduce Peruvian dependence on the United States.

--Perhaps more important, there is evidence of strong interest within the military government in the need for basic economic and social changes aimed at improving the conditions of life for the country's underprivileged majorities. President Velasco and others have spoken frequently of the economic and social reforms they have in mind, but thus far the government has taken few, if any, concrete steps to carry out the announced "revolution."

--Peru's new leaders have asserted that theirs is no mere caretaker government. They say the military will remain in power for as many years as it takes to set the country irrevocably on the course toward economic and social development--and that they will never return power to the ineffectual legislative and political party systems that were thrown out in October.

Note: This memorandum was produced solely by the Central Intelligence Agency. It was prepared by the Office of Current Intelligence and was coordinated with the Office of Economic Research, the Office of National Estimates and the Clandestine Service. It also has the coordination of the Bureau of Intelligence and Research of the Department of State and the Defense Intelligence Agency.

SECRET

25X1

SECRET

25X1

1. The military's original plan of government, drawn up shortly after the coup, was a general set of guidelines encompassing the foregoing objectives. The government's plans and tactics have evolved during its first six months in power, and they continue to evolve. The trend is toward greater state control over the economy and, though this is still not clearly defined, toward a more comprehensive program of national development including attempts to solve some of the country's basic social problems.

2. The evolution of the government's tactics and programs has to some extent been a product of the rivalry within the government and the military between the men around President Velasco and a group of equally nationalistic, but somewhat more cautious men frequently referred to as the "moderates." Thus far, the "moderates" have lost every round. Their influence has progressively declined. Additionally there has been a growing exodus from the government of able economists and technicians who had served the old regime. Correspondingly, there has been a rise in the influence of more radical men, many of them civilians with leftist or, in a few cases, Communist ties.

3. Opposition to Velasco still exists within the government, but the President has shown a native political shrewdness that has thus far kept his opponents off balance and has compensated in large measure for his own lack of popular appeal. One of the most effective instruments Velasco has used in his political power plays has been the high degree of nationalism engendered by the dispute with the United States. He has even, at least temporarily, gained the support of much of the country's wealthy class by making it appear that the rich will benefit greatly from his efforts to reduce US economic power in Peru. Organized labor is largely controlled by the powerful APRA party and remains a potent source of opposition. At the moment, however, no civilian group could move successfully against the government without the support of a faction of the military--and there is no present sign that an effective alliance along these lines is developing.

SECRET

25X1

SECRET

25X1

4. The government has difficult economic problems, but none of them is likely to become critical in the short term. The Belaunde administration's stabilization program was successful in greatly reducing the rate of inflation, and the military government has been able to continue holding it to a minimum. This has contributed, however, to a slow-down in economic growth and a rise in unemployment. Uncertainty over the prospect of US sanctions and over the new government's own programs reduced investment activity somewhat after October, thus further contributing to recessionary conditions. The government is expected to increase public investment, to relax credit restrictions, and in other ways to compensate partially for the economic decline. The foreign trade picture is promising, and foreign exchange reserves are expected to continue improving this year. The outlook for Peru's long-term economic development, however, would be severely dimmed if the US imposed sanctions or continued damaging economic pressures. Much would then depend on the willingness of European and Japanese governments to guarantee supplier credits and of investors from these countries to increase their activity in Peru.

5. The dispute with the United States has complicated Velasco's economic problems somewhat, but at the same time it has permitted him to consolidate his political position considerably faster than would otherwise have been the case.

6. Velasco's tactics have made it politically impossible for him or any conceivable successor to agree anytime soon to a settlement of the IPC case on terms involving Peruvian compensation for the property. "Surrender" on this issue would be tantamount to treason, in his view. The President, though still probably hopeful that the US will find some way to get him off the hook, is convinced that Peru can weather the storm if the US applies sanctions. He probably also feels he could further benefit from riding the resulting wave of anti-US nationalism. He has said he "will know what to do" if the US applies sanctions, but there is no solid information

SECRET

25X1

SECRET

25X1

as to what his course may be. At least for the short term, the radical and ultranationalist elements around Velasco would probably be strengthened in the wake of sanctions.

7. Whether or not the Peruvian Government is faced with US sanctions, it is likely to enlarge the role of the state in the Peruvian economy. This would not by itself be a radical departure in the Latin American context, particularly because the Peruvian economy has long been one of the freest from government control in the hemisphere. Neither would such a policy necessarily mean drastic action against all foreign investors in Peru. The danger, however, is that forces may be set in motion in a highly charged nationalistic atmosphere that might carry Peruvian leaders toward policies which they may not now envisage. Consequently the United States will have, at least for the short term, only the most minimal capability to influence favorably decisions of the Velasco government--whether or not sanctions are invoked.

8. The other Latin American countries are most anxious to avoid having to take sides in the US-Peruvian dispute. If it comes to a showdown, however, the majority would feel compelled to express sympathy publicly with Peru. The extent and duration of the anti-US reaction in the hemisphere would in large part depend, however, on the circumstances in which sanctions were applied. If they were in obvious response to a Peruvian provocation, reaction in the hemisphere would probably be less severe than otherwise.

9. A decision by the US to defer sanctions indefinitely would be greeted with relief in Latin America--as was the temporary deferral last month. At the same time, indefinite deferral of sanctions, unless accompanied by a credible rationale, might well be interpreted as a US capitulation in such countries as Argentina, Brazil, and Mexico. Moreover, it would give pause to real and potential US investors in Latin America and tend to undermine the US argument that it can be made worthwhile for the US private sector to contribute to the development of Latin America.

SECRET

25X1

Political Dynamics

10. The military coup that brought General Juan Velasco Alvarado to power on 3 October 1968 appears to have been motivated by essentially the same factors that had prompted similar actions by the Peruvian military in the past. These are: the belief that the political and economic situation in Peru was deteriorating; the desire to prevent Haya de la Torre and the APRA party, traditional enemies of the army, from coming to power; and the ambition of one man or group of men--in this case, General Velasco, who was to retire in January 1969 and would thus lose his power base. The present military government differs significantly from previous ones, however. One of the primary differences is that the top leaders, especially General Velasco, come principally from middle- and lower-middle-class backgrounds and, thus, do not have the close ties to the oligarchy that for so long characterized the majority of Latin American military officers.

11. Contingency plans for governing the country had been in existence for more than a year before the military assumed power. These plans reflected the hopes and values of the middle-class men responsible for drawing them up. The military's basic plan for governing the country was, in fact, written by a group of graduates from the Center for Higher Military Studies (CAEM), where the predominantly leftist civilian professors had endeavored to impress upon their students the need for social and economic reform in Peru. The plan reflects this teaching in that it assigns to the state a dominant role in the economy and society, while at the same time upholding the armed forces' traditional position on the need for a strong and modern military establishment and an anti-Communist stance.

12. The Peruvian military men also came to power with a lingering resentment against the US, engendered by what they interpreted as unacceptable attempts by the US on several occasions in recent years to interfere with sovereign Peruvian decisions. Several incidents since 1962 involved

SECRET

25X1

either the threatened or the actual suspension of US aid to Peru. The strong and unsuccessful US efforts in 1967 to dissuade the Peruvians from purchasing French Mirage fighter planes was the most galling of these incidents to the Peruvian military. In a period of rising Peruvian nationalism, these pressures served to emphasize Peru's economic dependence on the US--and to strengthen the resolve of some Peruvian military men to get the country out from under the US shadow.

13. On 9 October the military government expropriated large portions of the US-owned International Petroleum Company's (IPC) holdings in Peru. This accomplished several things: (1) it ended almost a half century of controversy in Peruvian political circles over IPC's role; (2) it provided justification for the military coup; (3) it generated immediate popular support for the military government; (4) it provided great personal satisfaction to President Velasco and others who have very strong feelings on IPC's alleged exploitation of Peru's people and natural resources. The IPC issue became the *raison d'être* of the military government and the expropriation an act "in defense of the national sovereignty." The initial hard line that President Velasco took on the matter soon had the entire government boxed into a position from which it could not have retreated, even if it had wanted to. To back down, even slightly, would have been a severe blow [redacted]

25X6

[redacted] would have eliminated the major justification for the coup, and in the eyes of government leaders would have been political suicide.

14. The original plan for the military government, developed by CAEM and approved by President Velasco and his cabinet shortly after taking over in October, provided general guidelines for governing the country but specified no concrete actions. It emphasized the need for rapid development of the country with the government playing a large role, but also assigned significant responsibilities to the private sector and foreign investment. It called for close cooperation with the US in combating Communist subversion in Latin America

SECRET

25X1

~~SECRET~~

25X1

while at the same time rejecting US efforts to interfere in Peru's sovereign decisions. The new government's economic program included the strengthening of major elements of the Belaunde administration's stabilization program, such as tax reform and reduction in government expenditures. The refinancing of part of Peru's foreign debt was also successfully completed. In its desire to attract needed foreign investment, the Velasco government has taken every opportunity to emphasize that the IPC is a "special" case and that foreign investment is welcome in Peru.

15. By mid-November 1968, it was evident that the government's policies were progressing beyond the guidelines set forth in the CAEM plan. In late November the foreign minister, supposedly one of the "moderates" in the government, spoke on Latin American economic integration and gave some hints as to what the government was planning for its internal economic and development policy. He said that a vigorous collaboration of private industry and government was needed, but that the government expected to guide private industry, make the final decisions in all cases involving the national interest and problems of economic and social integration, define the state's participation in basic production, and determine conditions for the association of state with private capital.

16. Prime Minister Montagne, the leader of the so-called moderates, enunciated on 5 December the "Revolutionary" Government's development policy, which resembles the long established policies of Mexico, Argentina, and Chile. The evolution of thinking in the government toward greater state participation in the economy is evident in Montagne's statement that "the state will assume the role of the promoter of the national development for the benefit of the

~~SECRET~~

25X1

SECRET

25X1

nation and of the national majority. This does not deny the right of private initiative but defines the obligation of the state to orient private initiative to function on behalf of the common good." He said that the new policies marked a change in the traditional pattern of development and would assure the integration of Peru with social justice and reduce the national dependence on external forces (i.e., the US) that have been increasingly present in Peru since its independence. The development plan itself put heavy emphasis on state planning to achieve economic and social goals. Agricultural policy as spelled out by General Benavides, the minister of agriculture, reflected the same spirit of reform, and the US Embassy remarked that many aspects of the policy were precisely those the US had been advocating, to no avail, for years. One primary aspiration of these various ambitious plans is the integration of the large Indian population, which currently is almost totally outside the money economy, into the economic, social, and political life of the country.

17. The military also appears to have some vague plan for the restructuring of the political scene in Peru, but this is so far evident only in negative statements. Part of this, the restructuring of the government's organization, has already been essentially carried out. This reorganization was aimed at reducing duplication of effort, bringing several autonomous agencies under direct ministerial control, and cutting expenditures. The military has placed most of the blame for the sad state of Peruvian affairs on politicians and the political system. In its view, the political competition between parties served only to stagnate the nation's development and create an atmosphere in which all politicians are motivated primarily by self-interest. The military has made clear that it believes it is the only institution capable of putting Peru on the path to development and that it will remain in power as long as it takes to get the process irreversibly on its way. This analysis by the military government is probably essentially correct, for the congress had in fact hamstrung most of the worthwhile programs recommended by the Belaunde administration.

SECRET

25X1

~~SECRET~~

25X1

18. The early attention that the new government devoted to quick establishment of relations with the USSR and Eastern Europe was probably a direct outgrowth of two priorities: the broadening of export markets, and the lessening of US economic and political influence. Evidence indicates that top government leaders do not view this as a radical change in their essentially pro-Western stance, but as a justifiable move in view of the changed situation in the world and the fact that several Latin American nations had already done the same thing. The confrontation with the US might encourage the Peruvian Government to seek some additional assistance from the Communist countries, but Peru apparently has no intention of getting deeply involved with them. In addition, there is no indication that the Soviet Union has any intention of moving rapidly in Peru, although it can be expected to reassess the situation if US-Peruvian problems are further exacerbated.

19. Since November the statements of government officials, particularly President Velasco, have been remarkably consistent in describing the attitudes, ideology, and goals of the military government. Excerpts from an interview with Velasco in January, 1969, probably provide the best clue to Velasco's view of the role of his government. He described the ideology of the government as nationalistic and revolutionary. Nationalism, he said, meant a rigorous defense of the nation's interests, the "Peruvianization" of the national economy, and a broadening of Peru's diplomatic relations with the rest of the world. He then stated: "This is a REVOLUTION...If it is pacific and tranquil, so much the better. But REVOLUTION means, according to the dictionary, 'violent change in the political institutions of a nation.' We are making changes as you can see, and we will make others very much greater--without regard for what the old legal concepts say. We will turn over the entire structure of the nation in order to hand over a completely new framework." His dedication to these principles, at least publicly, can be seen in his statement: "We are ready to step over thousands of cadavers, to die in the attempt to achieve

~~SECRET~~

25X1

SECRET

25X1

the accomplishment of our goals...I offer my life in the holocaust of the revolutionary government and of the transformation of Peru."

20. The ideology and stated policy objectives of this government are, of course, directly related to the personalities who hold the top positions in it.

25X6

The somewhat leftist or statist orientation of the government's policies can be traced to the graduates of CAEM, who now hold 70-80 percent of the key government posts, and the civilian advisers around Velasco. These advisers, headed by the leftist lawyer Alberto Ruiz Eldredge, were originally brought in to help set policy in the government's handling of the IPC matter. Their primary qualification was that they were all ultra-nationalistic and had spent a great deal of time in activities designed to force IPC out of Peru. Their influence has increased in recent months, partly as a result of the continuing difficulties with the US, and they are probably now involved in advising Velasco in matters other than petroleum. These advisers, some of whom have Communist leanings, can be expected to seek to expand their roles in the government, although for now at least, it appears that Velasco is in firm control and directs them rather than vice versa.

21. There also exists in the government an opposition group of sorts, which is frequently referred to as the "moderates." This group is composed primarily of generals who can be described as moderate only in the sense that they are probably more reasonable than Velasco and his coterie, without being significantly less nationalistic. The influence of this "moderate" group has appeared to be on the decline in the past few months, as the radicals behind Velasco have utilized their opportunities to weaken the opposition and have succeeded in removing one of its leading members, Minister of Finance Valdivia, from the cabinet.

25X1

SECRET

SECRET

25X1

22. The moderates have not taken advantage of opportunities, such as Velasco's retirement from active army duty on 31 January, to oust him. Prime Minister Montagne, the recognized leader of the moderate opposition, seems to lack the will to take over the presidency and the drive to take any drastic action. Other possibilities of ousting Velasco exist, but any attempt to do so must have at least the tacit support of Montagne. General Jose Benavides, the minister of agriculture, has the drive and ambition to make the move, but lacks the needed muscle. There is also some talk that Army Inspector General Vasi might sometime lead a move against Velasco, possibly to put a retired general, Ambassador to Brazil Julio Doig, in the presidency. In addition, there have been recent reports that the ousted finance minister, General Valdivia, is seeking support for an attempt against Velasco. Nevertheless, it does not seem likely that any of these possibilities will materialize in the next few months, unless there is some unexpected economic fiasco or a breakdown in public order.

23. Civilian opposition could arise from the wealthy businessmen and landowners or the labor sector led by Haya de la Torre's APRA party. The wealthy would be effective only in conjunction with elements within the military, but could bring pressure on some of the known opposition groups in the military to take the action they have put off for so long. Velasco is not popular with any significant group, either within or outside the military, and any move against him would probably have at least the moral support of most sectors of the population. He has, however, at least temporarily bought off much of the wealthy sector by dangling before it the prospect of great benefits from the reduction of the overpowering US presence in the Peruvian economy. Labor and APRA have not been bought off, however, and could stir up trouble for Velasco.

25X1

SECRET

25X1

~~SECRET~~

25X1

24. The Velasco government is moving toward more authoritarian control of the country, tightening the noose on political activity and on freedom of the press. The government has not yet imposed official censorship, but censorship exists unofficially; most news commentators and editorialists take great care not to offend the government unduly. This has not, however, prevented several Lima newspapers from criticizing Minister of Interior Artola for his "witch hunt," which has resulted in many arrests and deportations. Artola has concentrated his attacks against former officials of the Belaunde government, usually accusing them of fraud or embezzlement, but even members of the current government have been caught up in his "moralization campaign." This campaign has stifled activity on the part of the traditional political parties and at the same time has instilled in government officials a hesitancy to act without direct orders from above.

Current Economic Situation

25. The Velasco government's economic policy from the outset utilized much of the program drawn up by Belaunde's Minister of Finance Ulloa. The tax reforms were continued, to the surprise of the wealthy sectors, and efforts to refinance part of the foreign debt were successfully carried out by General Valdivia, Velasco's first finance minister. The Belaunde government's stabilization program reduced the rate of inflation, and the military's adoption of the program and its further reduction of the government deficit have enabled it to hold inflation to a minimum. Prices have risen faster in the last month or two, but this seems largely attributable to landslides that have blocked routes into Lima, resulting in significant increases in food prices.

26. The 31-percent devaluation of the sol in 1967 and the subsequent stabilization measures, combined with rising world market prices for some key exports, have changed a substantial trade deficit into a large trade surplus. The value of exports increased by 15 percent in 1968 with earnings from exports of copper, fishmeal, and silver showing

25X1

SECRET

25X1

the most rapid increases. At the same time, imports fell by 23 percent as import costs rose because of the devaluation and the imposition of an import surcharge and as demand for investment goods weakened. In addition, the heavy stockpiling of imports--which had taken place in anticipation of the devaluation--largely ceased after 1967. A ban on the import of luxury automobiles was the major cause of a 58-percent drop in imports of transportation equipment. Imports of other consumer goods declined by eight percent, capital goods by 27 percent, and industrial raw materials by about 15 percent. The balance-of-trade account improved by almost \$300 million in 1968, and a strong export surplus continued into early 1969.

27. Largely as a result of the stabilization program, economic growth slowed from 4.6 percent in 1967 to roughly two percent in 1968, compared with a rate of growth in population of about three percent. It is probable that the rate of economic growth slowed even further in early 1969. Most of this slowdown resulted from the stringent controls on fiscal and credit operations that were imposed under the austerity program and that have been progressively tightened through the first quarter of 1969. In addition, uncertainty over the new government's economic policies reduced investment activity after October, thus further complicating existing recessionary conditions. The economic slowdown undoubtedly has contributed to a rise in unemployment as additions to the rapidly growing labor force have been increasingly difficult to absorb. Per capita private consumption, however, probably has been maintained largely at the expense of investment in inventories and machinery. Despite the decline in per capita GDP and in imports, it is doubtful if there has been any appreciable shortage of consumer goods and raw materials. In anticipation of devaluation, inventories had been heavily built up in 1966 and 1967. Moreover, pockets of prosperity continue to exist in important sectors of the economy. Output of export industries and import-competing industries in particular has grown during the period since devaluation.

SECRET

25X1

28. The threat of sanctions has had the effect of reinforcing the recessionary effects of the stabilization program. Business confidence dropped and economic activity slowed when uncertainty over impending sanctions delayed management decisions. As the six-month deadline for the imposition of economic sanctions approached, this uncertainty had an increasing effect on the Peruvian economy. US and foreign bankers and businessmen began to curtail bank credits and supplier loans and temporarily to defer intended investment in Peru. This, in time, imposed an added burden on domestic credit sources--already strained by the credit restraints of the stabilization program--as borrowers who had traditionally depended on foreign credit were forced to turn to domestic sources. The Peruvian authorities nevertheless opted to pursue very conservative fiscal and monetary policies during this period.

29. Peru's short-run economic prospects are for slow expansion, although real economic growth during 1969 will probably be less than the three-percent annual rate of population growth. Unemployment will continue to grow, but the recently announced 42-percent increase in public investment expenditures in 1969 probably will be directed toward public works projects with a high labor and low import content. In addition, the recent selective relaxation in credit restrictions is likely to lead to some small increase in domestic investment and thus create new jobs.

30. Inflation is unlikely to present a major problem during the remainder of 1969. The Central Bank can be expected to keep over-all credit expansion within manageable limits, although some further credit relaxation will probably occur. In addition, reduction in the budget deficit appears likely during this calendar year. Budget expenditures are expected to increase by 8.3 percent for the remainder of the year, but at the same time revenues should increase somewhat. The government has put a high priority on tax reform, and a recently appointed tax commission is scheduled to recommend further changes by 30 June.

31. Exports for 1969 should equal or exceed those of 1968, and imports should continue at a low level as a result of the slowdown in the rate of economic growth. Private foreign investment may be on the increase after a virtual cessation of the inflow of long-term private capital in late 1968 and early 1969. About \$64 million in new investment contracts with three companies have been signed since February 1969, or soon will be. There are indications that Japan and France are considering projects that would bring even more outside money into Peru this year. Furthermore, Peru's foreign exchange reserves are expected to continue to improve in 1969. There is a good possibility that Peru will meet both the reserve and expenditure targets required to be eligible to make its May drawing under the IMF standby agreement.

ICP and Economic Sanctions: Impact on Peru:

32. The issue of compensation for the expropriated properties of the International Petroleum Company (IPC) has complicated the economic problems that the Velasco government would have had to face in any event; at the same time, however, it has allowed Velasco to consolidate his political position considerably faster and with much greater ease than would have otherwise been the case. IPC had been a burning political issue for decades, and the military's forceful handling of the problem through expropriation had the full and immediate support of the public and stirred the smouldering fires of nationalism. Since the expropriation on 9 October, Velasco has had no difficulty in keeping the issue before the people and playing on the usually suppressed anti-American feelings of the general public.

33. The hard line Velasco has taken since expropriation has brought the situation to the point where no Peruvian could make a significant compromise with the US without opening himself to charges of

~~SECRET~~

25X1

"sell-out" and even treason, such as those made against officials of the Belaunde administration involved in the August 1968 agreement with the company. This is why it is highly unlikely that anyone, be it Velasco or any conceivable replacement, could agree anytime soon to a solution that included Peruvian compensation for the expropriated property. Ruiz Eldredge, Velasco's chief adviser on the IPC case, has several times suggested to US negotiators that the US and IPC should agree to submit the whole matter to the Peruvian judicial system, seeming to hold out the possibility of some sort of an agreeable solution through this procedure. It seems unlikely, however, that a Peruvian judge would feel any more freedom from pressures than a politician or government official. Thus, there is little likelihood that an amicable solution to the problem will be found in the near future.

34. As for the long term, it is the opinion of the US Country Team in Lima that the prospect of inducing Peru eventually to grant compensation to IPC can best be promoted by maintenance of US economic pressures, but avoidance of overt sanctions. There is no way to tell how much time would be required for this approach to be effective. Some kind of formula, particularly if it involved indirect compensation to IPC, perhaps through another company or a consortium, might ultimately prove acceptable to the Peruvians. Even this, however, would probably have to wait until public awareness of the issues had simmered down or been diverted. At the present time, the Peruvians seem willing to let negotiations go on indefinitely, although Velasco himself had seemed to be pushing for a US decision one way or the other at the conclusion of Ambassador Irwin's visit in April.

35. An analysis of the over-all situation suggests that either a hard line--i.e., one including the imposition of the sanctions--or a soft line of cooperation with the Velasco government would delay, or end the possibility of, obtaining compensation, rather than hasten it. Velasco has stated that he "will know what to do" if the US imposes the sanctions. A variety of options are open to him, any or all of which would crystallize the hard-line positions of

~~SECRET~~

25X1

~~SECRET~~

25X1

all involved. Velasco would in all probability increase economic controls, harass US business interests, and perhaps take some diplomatic moves against the US--reducing or breaking relations and/or attacking the US action in some international forum. Close cooperation with Velasco, on the other hand, would convince him that he need make no concession to reach an agreement and would, at the same time, undermine whatever opposition might be building against him.

36. The Velasco government is gradually moving toward more state control of the economy and the society. If the US imposes economic sanctions against Peru, the likelihood is that Velasco will use the opportunity to consolidate his position further and perhaps take advantage of the psychological reaction in Peru to impose greater control over the society and economy as a whole. In addition, the more radical elements in the government, including Ruiz Eldredge and his colleagues, would have an opportunity to increase their influence at the expense of the moderates. In other words, the action/reaction process that could be touched off by the announced application of the economic sanctions might result in a situation in which the Peruvian Government was rapidly carried beyond what anyone other than a few extreme leftists now envisage as the ultimate goals for social and economic reform. An extension of negotiations, on the other hand, would not stop nor even slow the process now going on, but neither would it provide the opportunists with the ammunition they need to take control more completely and pursue their goals.

37. Invocation of the Hickenlooper and Sugar Act Amendments would not be likely to cause critical short-run economic problems for Peru. Because of the success of the administration's austerity program, the Peruvian economy should be able to absorb the additional short-run impact of actual sanctions. It should be able to do so, moreover, without finding it economically necessary to take retaliatory actions which would adversely affect much-needed foreign investment. The relative price stability and improvement in foreign reserves thus far achieved gives the Peruvian Government considerable flexibility in its economic policy options during the remainder of 1969.

~~SECRET~~

25X1

SECRET

25X1

The government could choose to adhere rigidly to the stabilization program in order to accumulate foreign reserves at a rapid rate. On the other hand, the government is in a position to adopt more expansionary programs, although at some cost in reserves and a resurgence of a degree of inflationary pressure. At this point, it should be possible for the Peruvian authorities to inject a degree of liquidity into the economy sufficient to maintain output, and perhaps achieve some growth, without driving the rate of inflation to a damaging level, at least in the short run. The Peruvian Government now appears to be moving toward the adoption of this alternative. The effects of the sanctions would be further mitigated if, as seems probable, European and Japanese businessmen moved into any breach left by US business. Nevertheless, the sanctions would do serious damage to Peru's development prospects over the long term, even if the large US mining companies eventually decided to go ahead with some of their planned new investments rather than lose their concessions.

38. In the event that sanctions continue to be deferred, the US probably could exercise some influence on the Peruvian Government if it selectively used its influence in the international lending institutions and financial community to help Peru find financing for worthwhile projects. Even in this case, however, the influence would be limited. The US might occasionally be able to maneuver Peru into taking a favorable or desired action, but it is extremely unlikely that the US would under any circumstances be able to persuade the Peruvian Government not to take some course of action that it had decided on. The US could also expect to retain the selective Peruvian support in international forums, at least on subjects not directly related to US economic policy in Latin America. On the other hand, if sanctions are invoked, the US would lose most, if not all, of its diplomatic influence on Peru. Furthermore, the damage to relations between the two countries would be extremely difficult to repair, even given optimum circumstances over a long period of time.

SECRET

25X1

~~SECRET~~

25X1

The Hemisphere

39. The attitudes of Latin American governments toward the US-Peru dispute have been ambivalent from the beginning. Each government has been and remains anxious to improve bilateral relations with the United States, particularly at a time when it sees the possibility of influencing the policies of a new administration in Washington. At the same time, most Latin Americans have a built-in tendency to side with the Latin American David in his struggles with the US Goliath. No major Latin American government believed early this year that it could avoid publicly expressing sympathy with Peru if the situation developed into a clear-cut confrontation between Peru and the United States.

40. The announcement in early April that the United States would defer imposing sanctions on Peru was met with widespread relief in every Latin American capital. At least temporarily, it got them off the hook: they would not be obliged to stand up and be counted. Moreover, the US decision was widely considered a statesmanlike move demonstrating that the United States was willing to make every effort to reach a satisfactory settlement. In the weeks since the deferral announcement, Latin American interest in the problem has dwindled. Even in Argentina, where the case had been receiving widespread attention in the press and in government circles, the subject has largely disappeared from public view.

41. Most Latin Americans, in and out of government, recognize that the problem will probably again come to the fore and that it may well require them to be more forthright in their reactions. Already, in Venezuela at least, the date of 6 August--when the current Peruvian administrative procedures on the IPC case expires--has, in the public eye, assumed the nature of a new "deadline" after which the US may be obliged to invoke sanctions.

42. Public statements by Latin American government leaders on the dispute have been rare in recent

~~SECRET~~

25X1

SECRET

25X1

weeks, but privately many of them show full awareness of the potential seriousness of the problem. In Chile, top government leaders are privately but strongly urging the United States to find some solution which does not include application of sanctions. With the possible exception of the conservative National Party, all other political parties in Chile, including the Christian Democrats, tend to favor the Peruvian position. The Frei government obviously fears being put into a position of having either to resist or to succumb to these strong pro-Peru pressures during this difficult political year in Chile.

43. In Mexico, too, the government is very anxious to avoid being caught in the middle of a controversy in which Mexico's sympathy with Peru as a Latin American country would conflict with its direct interest in maintaining friendly, cooperative relations with the United States. Thus Mexican leaders would also favor some sort of bilateral arrangement between the US and Peru that would avoid sanctions.

44. The Argentine Government publicly expressed its "solidarity" with Peru prior to the announcement that sanctions would be deferred. It claimed that this was a necessary tactic in its effort to earn the trust of the Peruvian Government and thus permit it more effectively to use its influence in Lima in favor of moderation. Privately, Argentine leaders have lamented the impasse, expressed their concern over the possibly serious consequences, and advised the United States to soft-pedal the threat of sanctions while quietly continuing talks with the Peruvians.

45. The Argentine Government, like many others, is strongly opposed in principle to the Hickenlooper Amendment. The use of economic pressure by one country in the hemisphere in an attempt to force the compliance of another with its demands is anathema in Latin America--particularly in juridical circles. The Latin Americans agreed to economic sanctions against Cuba only after it had been proven beyond the shadow of a doubt that Cuba had intervened militarily in Venezuela. The principle has

SECRET

25X1

even been written into the Charter of Bogota, which stipulates that no member state can apply coercive economic pressures to impose its will on another state or to obtain any advantage of any nature.

46. The duration and the extent of the reaction in Latin America to a decision by the US to invoke sanctions against Peru would depend in large measure on the timing and the circumstances in which sanctions were applied. If sanctions were applied in obvious response to a clear-cut Peruvian provocation, the reaction against the US would be less severe. If they came suddenly and without apparent provocation, reaction would be more hostile to the United States. To most Latin Americans, the current trips of Governor Rockefeller are of far greater potential significance than the problem the US is having with Peru. In many Latin American eyes, the US decision in the Peru case will be linked to the Rockefeller mission as an indication of coming US policy.

47. If the United States invokes sanctions: The reactions in the rest of Latin America would probably be most negative if sanctions were invoked during or in the immediate aftermath of the Rockefeller visits. Sanctions would probably be interpreted as signifying that the new administration in Washington had adopted a "hard-line" in its relations with the rest of the hemisphere. The US would be subjected to abuse from the press, in legislatures, and from some government officials. Most governments would feel obliged at least to express their public sympathy with Peru. The effect, of course, might be mitigated if it could be made to appear that Peru had provoked the US action.

48. If sanctions are avoided and the compensation issue is strung out indefinitely: Indefinite deferral of sanctions would clearly be the solution most preferred by the other Latin American governments. Most governments would be relieved. Some, however, would interpret it as a sign of US "softness." Even the temporary deferral last month prompted the Colombian foreign minister to say that he thought the US action might be interpreted as a sign of weakness.

49. Unless it were accompanied with some credible rationale, an indefinite deferral of sanctions might well be interpreted in such countries as Argentina, Brazil, and Mexico as a US capitulation. Moreover, it might well give pause to real and potential US investors in Latin America and tend to undermine the US position that it can be made worthwhile for the US private sector to contribute to the economic development of Latin America.

50. If US economic pressures continue: Continuing, quiet US economic pressures on Peru would probably not greatly upset the Latin Americans. Many would prefer to ignore them.

51. If the US abandons the effort to secure settlement of the dispute and moves toward closer collaboration with Velasco: This would be the most puzzling action the US could take as far as the rest of Latin America is concerned. Unless such a US turnabout were accompanied by some understandable explanation, most Latin Americans would regard it as outright capitulation to a government practicing blackmail.

52. To date there is no indication that any Latin American country has been encouraged by the Peru case to move toward nationalization of foreign investors. In Chile, pressures on the copper companies have in recent days become much more strident, but the US Embassy is convinced that there is no relation to the Peru case and that any action Chile takes will be determined by the government's concept of Chile's national interests and by internal political pressures.

53. It is difficult to predict whether any long term "domino effect" might come from an apparent US capitulation to Peru. It would be very unlikely to have any effect in the foreseeable future in Mexico, for instance, where the government has an active policy of promoting foreign investment and where the foreign investors feel completely secure. In Venezuela, and perhaps other countries, the IPC is considered to have had a very unsavory history in Peru

~~SECRET~~

25X1

and, for that reason, a US "exception to the rule" might be considered justified and not signifying a lessening of the US resolve to protect its investors abroad. In every Latin American country, any decision to nationalize foreign investors will be dictated to a much greater extent by the government's assessment of national interest. The Peru example would be a subsidiary consideration at best.

54. If Peru should formally charge the United States with "economic aggression" in some international body, all Latin American governments would feel obliged to offer some support to Peru. Most, however, would try to avoid being put on the spot. As in the recent CECLA conference in Santiago, they would probably try to work out some form of "compromise resolution" which went as far as possible in support of Peru without unnecessarily offending the United States. In such circumstances, however, it would be unrealistic for the United States to expect active backing from any Latin American country.

~~SECRET~~

25X1

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

Secret

Secret

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

CUBA

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

SECRET

13 June 1969

CUBA

I. As we see Cuba, Fidel Castro is in firm control.

USSR keeps his armed forces well supplied.

His relations with Moscow have improved.

Exiles do not constitute a threat.

He has moderated his efforts to export revolution--

partly to please Russia and the orthodox Latin

American Communists, but mainly because of

failures--particularly Guevara's in Bolivia.

Castro's biggest immediate problems are economic----

mismanagement, inefficiency, low productivity,

labor shortages and natural disasters combined.

1970 goal for sugar crop is 10 million tons. This

year's will be below 5 million, next year's

probably no more than 7.5 to 8 million tons.

Below 7 million, Castro will be hard-pressed

to explain failure of 1970 goal.

Attached: Briefing of 9 June.

25 April Intel Memo, "The Situation in Cuba."

SECRET

SECRET

25X1

6 June 1969

DCI's 9 JUNE BRIEFING

CUBA

- I. Fidel Castro is firmly in control of Cuba.
 - A. His power position is based on the loyalty of key officials in the military and security forces and in the Cuban Communist Party.
 1. Senior military officers ~~/~~most of them veterans of Castro's 26th of July Movement ~~/~~comprise about two-thirds of the party's Central Committee, and dominate almost all other public institutions.
 - B. Despite his increased demands for harder work, austerity, and the unpopular reforms of 1968, Castro probably still has the support of a majority of the population.
 - C. Activities by Cuban exiles pose no threat to the stability of the Castro regime. A ten-man team of exiles bent on sabotage was wrapped up in less than six days early last month; a similar group met the same fate last December.
- II. The economic situation is still Castro's biggest

SECRET

25X1

SECRET

25X1

headache.

- A. Troubles arising from mismanagement, inefficiency, low labor productivity, and shortages of workers for agriculture have been aggravated by a series of natural disasters.
- B. In 1967, Cuba's GNP was only about 15 percent higher than in the highest pre-revolution year--1957. In that ten year period, however, there was a 20 percent increase in the Cuban population. In 1968, because of the drought, the GNP undoubtedly declined and is not expected to recover significantly this year.
- C. The outlook in the crucial area of sugar production is not good.
 1. This year's harvest, which was meant to be a dress rehearsal for the planned ten million ton crop in 1970, will be about half a million tons below last year's poor crop of only slightly more than 5 million tons.
 2. The 1970 yield, moreover, will probably be no greater than 7.5 to 8 million tons. If it sinks below 7 million tons, Castro will be hard pressed to shrug off the complete failure of the goal of 10 million tons he has

SECRET

25X1

SECRET

25X1

pushed dramatically and unequivocally for the past four years.

III. Castro's armed forces are in good shape. The Cuban military establishment is the most modern, the best trained, and best equipped in Latin America. It could successfully defend the island from any attack short of an invasion with U.S. support.

A. The Cubans depend primarily on Soviet-supplied arms and equipment. From September 1966 to February 1968, an average of two major military shipments per month were received from the USSR, in a campaign to update and resupply the military services. There have been no major arms deliveries in the past 15 months, but the armed forces are at satisfactory levels of readiness and proficiency.

~~B. It is unlikely that the USSR will attempt to reintroduce strategic missiles into Cuba, although we recognize that the Soviets have the technical capability to reintroduce the components of a strategic missile system clandestinely.~~

25X1

SECRET

SECRET

25X1

IV. During the 20 months since the death of Che Guevara, Cuba has modified its tactics and priorities for "exporting" the revolution in Latin America.

- A. Castro has withdrawn from the aggressive approach he pursued in 1966-67, has toned down Cuban propaganda, and has allowed front groups like the Latin American Solidarity Organization to lapse into virtual dormancy. He has almost completely ignored themes of revolution in his speeches during this period.
- B. Castro is more cautious because of the repeated failures of guerrilla groups he has supported, and because he may realize that Cuban interference and bullying have contributed to their factionalism and impotence.
 - 1. He was stunned by the failure of Che Guevara in Bolivia, and in retrospect probably recognized the hopelessness of the campaign as it was revealed in Guevara's diary.
- C. Cuba continues to train Latin Americans in guerrilla techniques, but more selectively than in the past, and Castro has not renounced

SECRET

25X1

SECRET

25X1

the principle of armed revolution as an instrument of his foreign policy.

- V. Cuban relations with the USSR have improved considerably since last August when Castro endorsed the invasion of Czechoslovakia.
 - A. This January, Castro had warm and unequivocal praise for Moscow for the first time in three years, even though massive Soviet economic support had continued without interruption in the interim.
 - B. Another indication of the improved state of affairs is Havana's decision to send a high-level delegation of observers to the Communist Party Conference in Moscow this month. Soviet-Cuban relations may now be better than at any time since Brezhnev and Kosygin came to power.
 - C. Castro probably hopes that if he appears more compliant, Moscow will increase its aid to Cuba significantly.
 - D. Cuba's relations with Peking have been extremely cool since early 1966. Havana's decision to attend the Moscow conference and its warm praise earlier this month for the Soviet border guard will hardly improve the situation.

SECRET

25X1



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Current Situation in Cuba

Secret

25 April 1969
No. 1554/69

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1 EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

SECRET

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
25 April 1969

INTELLIGENCE MEMORANDUM

The Current Situation in Cuba

Summary

After a decade in power, Fidel Castro rules Cuba absolutely through a totalitarian personal apparatus. The military and security forces, under the control of Fidel's younger brother Raul, are well trained, well equipped, and effective in identifying and eliminating opposition to the regime. The officer corps--especially the senior majors who are veterans of Castro's 26th of July Movement--is the main buttress of the regime. In addition, several other groups are important factors for stability. Most youths, students, and peasants, large segments of the urban working groups, and the activist members of the mass organizations provide Castro with a large constituency. Finally, the government's complete control of all public information media, Fidel Castro's political skills, and his ability to charm his countrymen are important factors upholding his dictatorship.

Cuba's current problems stem in large measure from the ragged performance of the economy. Despite shortages of almost every kind since 1961 and considerable fluctuations in the economy, however, output has tended to increase slightly. In 1967 Cuba's GNP was only about 15 percent higher than in 1957 (the best prerevolution year). In 1968, moreover, underlying economic problems were aggravated by severe drought and harsh, puritanical reforms. Gains in agricultural production early this year have apparently caused an upturn to 1967 levels, but longer

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Current Intelligence and coordinated with the Office of Economic Research, the Office of National Estimates, and the Clandestine Service.

SECRET

SECRET

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

range economic growth is uncertain. This year's sugar harvest, which was meant to be a dress rehearsal for the planned 10-million-ton harvest next year, may not exceed last year's output of 5.2 million tons. Thus, while it is still possible for Castro to produce a record crop in 1970, it almost certainly will not exceed 8 million tons, far short of his objective of 10 million.

Cuban-Soviet relations improved following Castro's endorsement of the invasion of Czechoslovakia. In January Castro warmly praised Moscow for the first time in about three years. Castro probably believes that by associating Cuba more closely with the USSR he will gain expanded economic and technical aid. Castro's more moderate approach in Latin America has also contributed to better relations with Moscow. Since the death of Che Guevara a year and a half ago, Cuba has modified its tactics and priorities for "exporting" the revolution.

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

SECRET

SECRET

The Military Establishment

1. During the decade that Castro has been in power, his position has been firmly anchored by the military and security forces through a number of senior officers who are veterans of his 26th of July Movement. Senior officers comprise about two thirds of the central committee of the Cuban Communist Party, and military men make up at least one fifth of the party membership. The two civilians on the eight-man politburo are outnumbered by Fidel and Raul Castro and four other army majors. During 1968 at least six high-ranking officers were appointed by the politburo as plenipotentiary delegates to direct provincial and regional affairs, and another was placed in charge of the construction industry. Thus the party, originally constituted with a wide representation of military and civilian leaders, is under the exclusive control of Castro and a personal entourage of army majors.

2. These same men dominate almost all other public institutions and mass organizations through the party. In 1968 the military were responsible for mobilizing tens of thousands of civilians for the sugar harvest and other agricultural work. This year the Ministry of the Armed Forces is directing the harvest. During the past two years the military also assumed complete control of civil aviation and began the reorganization of preuniversity education.

3. The military have become the supreme institutional force, probably because the officer corps is the only organized element that Castro completely trusts. The officer corps consists of about 200 majors (the highest military rank) and an unknown number of captains and junior officers. Most of the latter were commissioned after Castro came to power, and although they are not members of the 26th of July group, they have been subjected to extensive political indoctrination and military discipline and are loyal to the regime. No Cuban military officer on active duty has defected to the US in several years, although a few noncommissioned officers and some conscripts have defected via the Guantanamo Naval Base.

SECRET

SECRET

4. Because most of the senior majors are simple, unsophisticated men who may be uncomfortable with the power they have acquired, and because they are devoted to Castro, few of them are considered politically ambitious. Field commanders are rotated regularly, and Raul Castro and his deputy minister of the armed forces conduct frequent field tours. The loyalties of Castro's colleagues clearly transcend the ideological and the political. Very few were exposed to Marxist-Leninist thought before 1959, and even now their ideological commitments are probably shallow. So deep is their personal commitment to Castro, however, that the cult of his personality has become for them an ideology.

Castro's Popularity

5. Fidel Castro has consistently been able to maintain the support of a majority of the population. He has made full use of his charm and political adroitness and the effective propaganda machine he controls. In addition, he has encouraged the departure of his opponents and critics. Since 1959 between 500,000 and 700,000 Cubans have left the island; about 1,000 leave each week on the Varadero-Miami airlift. Many others have left in small boats, on refugee flights to Spain and Mexico, or via "fence jumping" at the US Navy base at Guantanamo. Most legal refugees have been middle aged or elderly and former members of the middle and upper classes.

6. As a result of this steady migration of the disenfranchised and the high rate of population growth, the groups most favored and benefited by Castro have become larger in proportion to the rest of the population. The median age has steadily declined; in January 1969, an estimated 55 percent of the population was under 25. The oldest of these were only 14 when Castro came to power, and they have been subjected ever since to an intense and effective propaganda assault.

7. Their loyalty to the regime has also been encouraged by special privileges and endowments. All education is free. Tuition charges have been eliminated, and textbooks--when available--are provided by the government. About 300,000 scholarship

SECRET

SECRET

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

students are provided free room and board, clothing, medical care, and a monthly allowance. In ten years the government has doubled the number of both schools and students. As wards of the state, students are spared many of the hardships of rationing and food shortages. They do not have to wait in queues for food, or supplement their rations by covertly patronizing the black market. Thus favored, the students are probably overwhelmingly in accord with Castro.

8. As the military has expanded its role, and as a result of the radical and puritanical reforms imposed last year, the morale of some of the older youths has deteriorated. Many of them are school dropouts and former students who have become disaffected because of the drop in their standard of living after leaving school. In addition, because of the oversupply of labor for nonagricultural work, many have become idle. Their expectations rose during their school years, and they are disappointed to find few job opportunities outside of agriculture. Last September Castro criticized such youths for being "hippies and loafers" and sent several hundred of them off to the fields. More than 30,000 other youths between the ages of 17 and 27 were inducted last year for three-year hitches in agricultural work under military discipline.

9. Although a growing number of youths out of school seem disenchanted with the regime, most of them probably still support it. They have been subjected to propaganda for a decade, and have little objective knowledge of the rest of the world. Most of them are probably convinced that they are better off under Castro than they would have been under previous administrations; in any case they can see no alternative. The older youths, however, seem more cynical in judging Castro and the accomplishments of the revolution than do the youths in school. As a result, one of the major problems for Castro's government during the next few years will be to create satisfactory employment for them and to maintain their motivation and loyalty at the level of their school years.

SECRET

SECRET

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

10. In addition to the military caste and the youth, the peasants and some urban working elements have been the most favored groups in Cuba. They were the first beneficiaries of Castro's reforms. Unskilled and semiskilled workers received pay raises and other benefits that augmented their purchasing power. Unemployment and underemployment were reduced, and large numbers of agriculture workers migrated to better paying jobs in industry and construction. As expenditures for public consumption increased, they experienced an advance in their standards of living. Programs in health, education, and welfare benefited those who could not afford these services before the revolution.

Discontent

11. Shortages of food and consumer goods, and the radical and puritanical reforms imposed last year, however, caused some deterioration of Castro's popularity even among the groups he has most favored. In March 1968 he announced a harsh "revolutionary offensive" to restore "momentum" to the revolution and to impose more austere conditions for greater productivity. He closed all bars and nightclubs in Cuba, reduced beer production, outlawed gambling and cockfighting, mobilized tens of thousands of civilians into agricultural work brigades, further upgraded the military over the civilian bureaucracy, and nationalized more than 57,000 small private businesses. Castro railed against "cafe pundits" and "barroom philosophers," and insisted that city dwellers and youths perform "volunteer" agricultural work. In addition, mainly because of the severe drought of 1967, food shortages increased last year, and the list of rationed goods was expanded. Since January 1969 even sugar has been rationed.

12. As a result of such shortages and austerity, there has been an increase in dissatisfaction and in the number of (isolated) acts of sabotage and vandalism. Last year there were almost twice as many "fence jumpers" at the Guantanamo Naval Base as in 1967, and the same high rates have continued

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

SECRET

SECRET

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

this year.* High crime rates have apparently also continued, but the regime has not resorted to harsh crackdowns or wide-ranging social and economic reforms like those of 1968. Recent speeches by President Dorticos and Sergio del Valle, who as minister of interior is chief of Cuba's internal security apparatus, indicate that the increase in crime and dissidence does not pose a significant political challenge to the government. They revealed that administrative and legal reforms will be undertaken to counteract criminal activities and to reduce the conditions that contribute to the frustrations of many Cubans. Increased food production this year may also ease some hardships and reduce crime and dissatisfaction.

13. Despite some fluctuations in morale, however, Castro probably retains the hard-core support of large majorities of the youth, peasants, and various working class groups. No organized resistance to Fidel is known to exist inside Cuba.

Economic Problems

14. After an initial period of growth and expansion, the Cuban economy has stagnated, despite the annual infusion of some \$350 million in Soviet subsidies and credits. In 1967, the year of highest output since Castro came to power, Cuba's estimated GNP was only 15 percent higher than in 1957 (the highest prerevolution year). In that ten-year period, however, there was a 20-percent increase in the Cuban population, resulting in a 15- to 20-percent decline in per capita consumption. In 1968, moreover, the GNP declined further mainly because of serious drought and economic disruptions.

15. Economic stagnation results from a variety of factors, many of which are direct outgrowths of the rapid and disruptive nationalization undertaken during the first few years of the revolution.

**There were few defectors from Cuba via the Guantanamo Naval Base before 1965. Figures since then are as follows: 1965-36, 1966-138, 1967-511, 1968-1005, Jan - 20 April 1969-315.*

SECRET

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

Fundamental to all of these factors, however, is the inefficiency and disorganization of the new managerial class. Most white-collar workers are inexperienced and poorly educated, and political reliability has long been the main criterion for their employment.

16. The antibureaucracy drives and administrative purges of the last few years seriously disrupted government ministries and agencies, and their efficiency is further reduced as they are forced to provide personnel for "voluntary" agricultural work. Even more disruptive, however, have been the mass mobilizations of office workers to help in the sugar harvest. Management is also weak because the strictly centralized system of administration stifles initiative and reduces the effectiveness of lower level managers.

17. Another important reason for economic failure and managerial confusion is the frequency with which economic plans and national priorities have changed during the last decade. Many short-range programs also have been expensive fiascos because they were undertaken impulsively.

18. A shortage of agricultural labor and a surplus of white-collar workers add to the problems causing the economy to stagnate. The problem worsens yearly, moreover, as the schools graduate technically skilled students who prefer to shun manual labor. Severe drought during four of the last eight years has also caused serious difficulties. Finally, the US trade embargo has forced Cuba to import large amounts of capital goods to replace US-built machinery and equipment for which spare parts are no longer available. This has further restricted Cuba's ability to import other needed goods.

Economic Outlook

19. In his speech on 2 January 1969, Castro was ebullient and confident, predicting that many of the economic goals for 1970 will be fulfilled. He was probably correct in appraising the various

SECRET

SECRET

factors that point to some economic recovery this year even though he has been highly critical of this year's sugar harvest. Rainfall has been normal, large quantities of fertilizer have been used, and the military can probably organize and manage the economy more authoritatively and rationally than the civilian bureaucrats. These factors and the high price of sugar on the world market could result in further improvements in 1970.

20. During the first half of 1969, output will probably be higher than it was last year without regaining the level of 1967. Fruit and vegetable crops will probably increase, and meat and dairy products and other foodstuffs should be in greater supply. Furthermore, although it is not likely that Castro's oft-mentioned goal of 10 million tons of sugar will be milled in 1970, Cuba may be able to produce a record crop even though this year's harvest may not exceed the 5.2 million tons produced in 1968.

21. Gains in sugar output, however, may be offset by disruptions elsewhere in the economy because large numbers of workers will be diverted from their regular work to cut cane. It is still too early to determine to what extent gains made in the economy this year will benefit the consumer. In the past Castro has exported food commodities to earn foreign exchange while rationing them at home. In addition, per capita gains will be partially offset by population growth.

22. Long-range economic growth is uncertain. Plans have centered on agricultural diversification and increased sugar production, but a number of problems must be resolved before production goals can be fulfilled. Castro has attempted to remedy the acute shortage of regular agricultural workers by investing heavily in machinery and by propagandizing the joys of rural life.

23. These efforts may stimulate agricultural output over the next few years. The USSR has extended large credits to support Castro's vigorous effort to expand and renovate Cuba's sugar industry and distribution system. By late 1968 Cuba's

SECRET

SECRET

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

indebtedness to the USSR for economic aid totaled \$1.8 billion. Since 1961 Havana has also received military assistance and equipment worth more than \$700 million. Without more rational and professional management and planning, however, the Cuban economy will probably fluctuate without achieving a lasting and significant rate of growth.

Cuba, the USSR, and Latin America

24. Castro's preoccupation with domestic problems during the last year and a half, and the moderation of Cuban tactics and priorities for "exporting" the revolution in Latin America, have contributed to a considerable improvement in Cuban-Soviet relations. The watershed apparently was reached last August when Castro publicly supported the invasion of Czechoslovakia. Since then relations have continued to improve, and in January, for the first time in about three years, Castro warmly and unequivocally praised Moscow. He probably hopes that Moscow will increase economic and technical assistance to such an extent that significant economic gains can be made by the end of next year. With this in mind, Castro might now be willing to send a high-level delegate to the June meeting of world Communist parties if he were to feel confident that he would not have to be a partner in a specific denunciation of Peking.

25X1

26. Since the death of Che Guevara a year and a half ago, Castro has withdrawn from the extreme and violent approach he pursued in 1966-67. He has not attempted to initiate new areas of insurgency, has toned down Cuban propaganda, and has allowed front groups like the Latin American Solidarity Organization to lapse

SECRET

SECRET

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

into dormancy. During this time he has almost completely ignored themes of revolution in his oratory.

27. Castro's caution is a result of a variety of pressures and realizations. He was stunned by Guevara's rapid defeat in Bolivia; in retrospect he probably recognized the quixotic hopelessness of the campaign as it was revealed in Guevara's field diary. Castro has been repeatedly discouraged by the failures of guerrilla groups he has supported, and may realize that Cuban interference and bullying have contributed to their factionalism and impotence. He seems to have grown more pessimistic about the prospects of revolution in Latin America and about Cuba's ability to be the decisive influence.

28. In any case Castro is apparently disenchanted or at odds with the groups he has supported in Guatemala, Venezuela, and Colombia, and he probably does not believe that conditions in most other countries are right for armed struggle. At least until the end of next year's sugar harvest, therefore, he is not likely to take a significant part in new guerrilla initiatives or introduce any sizable escalation in Cuban support of existing groups. The Cuban intelligence service will probably continue a selective guerrilla training program, and Castro will probably adhere generally to the concept of guerrilla action, but he is likely to step in only if Cuban support is desired and when he believes it could be decisive.

Prospects for Castro's Tenure

29. There is no evidence of organized opposition to Castro and his regime. Whatever course Castro follows, he seems likely to retain the hard-core support of the groups he has favored. They realize that they are better off than they were before, and they see no alternative to him.

30. By ceding greater responsibility to his followers in the military and security forces, Castro has granted supreme institutional power to the group that is most loyal to him. As long as this

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

SECRET

SECRET

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

group remains loyal, Castro can deal with threats to his position from any other internal source or combination of internal forces. Any threat to him from this group would also have to be against his brother, Raul. It is unlikely that Raul would take part in any move against Fidel.

31. If a significant number of majors were to become convinced that Fidel was either mentally or physically unable to rule and that Raul could not be separated from his brother, they could conceivably attempt to limit Fidel's power. At 42, however, Castro is in robust health. There is little chance that any plot against his regime--none is known now to exist--could succeed in the foreseeable future.

Approved For Release 2002/06/11 : CIA-RDP79T00827A001800010003-5

SECRET

Secret

Secret

Approved For Release 2002/06/01 : CIA-RDP79-00827A001800010003-5

TOP SECRET

Approved For Release 2002/06/01 : CIA-RDP79-00827A001800010003-5

TOP SECRET